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## *Introduction*

Brazil has undergone transformative change since its return to civil rule in 1985. The country has started over. As electoral participation has widened, politics has altered. Effective economic policies have become permanent, and economic advance has become more widespread and consistent. With rising income a healthier and longer life is available to a much broader swath of the population, and there is increased opportunity for social advancement. And Brazil's foreign policy has assumed greater importance within a multipolar world.

*The Economist* featured Brazil in its issue of November 14, 2009. According to the final words both of the lead editorial and the special report, "Its take-off is all the more admirable because it has been achieved through reform and democratic consensus. . . . What makes the country so exciting at the moment is that, thanks to its newfound stability, Brazil's better self now has a much greater chance of prevailing."<sup>1</sup>

This advance was neither continuous nor without occasional good fortune. At times, the challenges facing the new civilian regime seemed beyond its capability to respond. Nor did the "New Republic" begin with a tabula rasa. The past did not just disappear; rather, its influence gradually eroded over time, as reforms were implemented and a new generation exerted its influence.

Initially, after 1985 the prime emphasis was on a new constitution, which was accompanied by political party multiplication

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and realignment. Emergence from decades of political constraint under military dictatorship was the main concern, in part because a competent technocracy had dealt with the economy, and not altogether badly. Coping with burgeoning inflation had secondary significance; it is not accidental that both Argentina and Brazil failed the first time around in this battle. Other priorities took precedence.

The Constitution of 1988 established the basis for the New Republic. A strong executive emerged and remained central to subsequent events. Social principles were enacted, if not immediately implemented. Universal claims to education, health care, and retirement benefits were henceforth legitimate demands upon the state. But these could not be realized until inflation had been successfully eliminated. Brazil finally succeeded in doing so with the Real Plan in 1994. Thereafter, the currency unit has stayed the same, a sharp difference from the previous constant elimination of zeroes and frequent name changes.

Freed from these inflationary shackles, the Cardoso years saw much constitutional amendment to better provide an institutionalized basis for moving forward. This was especially the case within the social area: original rights required modification before they could be effectively implemented. In addition, privatization and globalization entered in a decisive way as the economy finally began to grow. International affairs assumed greater importance: Brazil exerted leadership in Mercosul (a customs union of neighboring states), considered the possibility of membership in a new continent-wide Free Trade Agreement of the Americas sought by the United States, reached out to the European Union, and launched an organization of all South American nations.

But in the wake of crises in Asia and Russia, Brazil had to devalue its currency and seek assistance from the International Monetary Fund (IMF) and World Bank. Economic matters again assumed priority. A new macroeconomic policy was implemented and has continued into the present: inflation targeting, a primary fiscal surplus, and a floating exchange rate with an open capital account. Slowing economic growth, rapidly rising taxes, and soaring public debt altered domestic politics definitively: Lula and the Workers' Party (PT) emerged as clear winners in 2002. International capital markets then became extremely worried about future policy, as a sharply devaluing *real* showed.

Their fears were unfounded: the Lula administration retained the preestablished economic framework, including the IMF program. There was no renunciation of public debt. Instead, in the midst of this

continuity—unwelcome to Lula’s supporters—the government emphasized social policy. There was larger investment in a conditional cash transfer program, Bolsa Família, incorporating approximately a fifth of the population. Education received attention, as did the universal health system. The burgeoning social security system with its continuing deficit was managed. A highly unequal income distribution has continuously improved. At the same time, greater independence emerged in foreign affairs: Brazil ended its engagement in the Free Trade Agreement of the Americas and devoted greater attention to South-South relations.

World economic expansion—leading to global growth rates not seen since the 1970s—included Brazil after 2003. Exports and prices of primary products rapidly rose. Amid rapid expansion of trade with China, there was much talk of delinking from the slower growing developed countries. All that ended with the global economic collapse in the last quarter of 2008. Brazil, benefiting from its high level of international reserves, reacted well to this challenge. Compensating fiscal and monetary policy produced economic growth in 2010 of 7.5 percent. Additionally, discoveries of large petroleum reserves below the offshore salt barrier, with promises of an immense surplus in years to come, have provided a new boost. The eternal land of the future has finally transformed into the land of the present.

How was it possible for Brazil to move from its authoritarian past to its lively democratic present over this interval, advancing not only politically but also economically, socially, and diplomatically? Three factors played a role.

First is a pattern of sequential advance. Politics took initial precedence, with concentration on preparing a new constitution as a framework for the New Republic. In that effort, numerous independent political parties arose. But there was not the policy coherence required to end inflation and pursue economic growth. That only happened with the Real Plan and with subsequent macroeconomic adjustment of the economic model in 1999. Resumption of economic expansion, in turn, enabled more effective social policies by ensuring needed resources. Brazilian foreign policy became more prominent at the last stage of this process, once domestic achievements had occurred and became more institutionalized.

Second, of these multiple objectives, regaining economic growth quickly came to dominate. There was an impressive prior record of achievement to match: not only the “Brazilian Miracle” from 1968 to 1973, but earlier as well. Ending inflation alone was not enough. This

economic priority impelled a permanent increase in the size of the public sector but allowed privatization and emphasis upon expansion of foreign trade to proceed. Brazil modified budgetary rules to ensure a continuing primary surplus. Growth fully resumed only in the Lula years: the Program for Accelerated Growth, launched after his reelection in 2007, was a dominant factor in the recent electoral campaign.

Third, over the preceding twenty-five years, the outside world changed from a negative to a positive force, assisting Brazilian transformation. In the 1980s Brazil was afflicted by the debt crisis and eventual default. From the mid-1990s on came a sequence of economic problems: Mexican devaluation, the Asian crisis, Russian default, U.S. recession, and Argentine collapse. But thereafter, the terms of trade considerably improved, by some 34 percent since 2000 as commodity prices rapidly increased. Rising income exceeded gains in production. As the source of global income growth has increasingly shifted to the BRICS (Brazil, Russia, India, China, and South Africa), Brazil has been able to extend its diplomatic outreach.

The successive chapters of this volume treat four aspects of Brazil's transformation over the past twenty-five years: politics, economics, social policy, and international affairs. Each of them attempts to explain the changes observed in Brazilian policy. Quantitative tables abound, aiding the arguments advanced.

A final chapter looks ahead. The election of President Dilma Rousseff of the PT in 2010 was almost inevitable. She was the immensely popular Lula's personal choice. Continuing is not an easy task. Despite past gains, issues remain, and important decisions will have to be made. Already, immediately after inauguration, the new administration committed itself to fiscal restraint for 2011, and the central bank has begun to react to rising inflation by raising interest rates. But other long-standing questions also require attention, as Dilma has already acknowledged. In her speech opening the National Congress, she included several of them, but not fully.

In the political area, efforts will reemerge to alter voting regulations and strengthen the role of parties within the congress. Brazilians chose representatives from among more than twenty political parties in the recent election, and such a wide array hampers development of a stronger and more independent legislative branch. Although there is a pro-government majority greater than the 60 percent required for constitutional amendment, signs already emerge of discontent.

In the economic sphere, the high domestic real rate of interest, and the consequent assortment of offsetting subsidies granted to domestic industry, will have to be confronted. Brazil's interest rate will rise this year. A reason is the persistent fiscal deficit, despite a level of government receipts that approximates 38 percent of gross domestic product. The primary surplus is positive because government interest payments are excluded.

Socially, despite considerable expenditures, education and health compare unfavorably with the situation elsewhere. Large governmental outlays for pensions threaten future fiscal stability. The success of Bolsa Família and a surging lower middle class are quite positive developments, but in the absence of additional reforms, those advances may encounter setbacks if economic growth falters.

Within international affairs, there is now a greater Brazilian presence, bilaterally and regionally, as well as increased involvement in a variety of global issues relating to the environment, atomic energy, the World Trade Organization, and others. Making the recent South-South orientation compatible with closer relations with the United States and Europe will be an ongoing challenge.